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### Russian Agricultural Policy and Situation Bi-Weekly Update

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**Report Highlights:**

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**General Information:**

Welcome to the Russian Agricultural Policy and Situation Bi-Weekly Update, a summary of issues of interest to the U. S. agricultural community. The report includes information that has been garnered during travel within Russia, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

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**Russian Resolution for Preservation of Caspian Sea:** Resolution #1866-p "On preservation and sustainable use of water biological resources of the Caspian Sea," was signed by the Russian Federation on September 20, 2014. The agreement was prepared in accordance with the decision of the Presidents of the Republic of Azerbaijan, Islamic Republic of Iran, Republic of Kazakhstan, Russian Federation and Turkmenistan based on the results of the 3<sup>rd</sup> Caspian Summit, held November 18, 2010 in Baku. The objective of the Agreement is to preserve and foster sustainable use of the biological resources of the Caspian Sea, including management of joint biological resources. The participants of the agreement set up a commission for the preservation and sustainable use and management of the resources. The Resolution will establish an international legal framework in regulation for harvesting sturgeon species and other biological resources in the Caspian basin. [http://government.ru/dep\\_news/14891/](http://government.ru/dep_news/14891/)

**Russia to Launch Food Aid Assistance Program for Low Income Population:** During the International Investment Forum "Sochi-2014," the Chairman of the Board of the Association of Producers and Suppliers of Food Products, Maxim Protasov, announced that a food aid program for low income population will be launched in several pilot regions of Russia. Currently the government has been discussing an increase in funding in the framework of the state program for Agricultural Development due to the introduction of the food ban. In addition to support for low income population, support will also be provided to domestic producers. According to the Deputy Head of the Agrarian Committee at the State Duma, this program is being implemented in some Russian regions, such as Mordovia. Social cards allow purchase of local products at a low price in specialized retail stores.

According to Deputy Prime Minister Dmitriy Dvorkovich, the government is not going to introduce food stamps, but instead will provide electronic cards that allow access to public services and some credit for targeted assistance. <http://www.agronews.ru/news/detail/136341/>

**Duma Devoted to Improving State Program of Development of Agriculture:** The Ministry of Agriculture reported that it will need 625 billion rubles to fund import substitution initiatives. The allocation for import substitution programs in 2015 alone is 77.5 billion rubles. According to the Chairman of Agrarian Committee at the State Duma, Nikolay Pankov, although there has been some recent growth in the agricultural sector, the sector needs to develop more dynamically because of sanctions against Russia. He reported that his Committee is currently developing 17 draft resolutions, including amendments to the law on the development of agriculture, on family farms, veterinary law, and seed growing. According to Chairman Pankov, there are a number of difficult issues in agriculture to be addressed, such as high interest rates for credit, issues of technological upgrading and a growing

price disparity for agricultural products and industrial production. Pankov noted that it is necessary to allocate additional financial support toward agriculture and ensure effective use of each ruble to ensure the development of import substitution. According to the Director of the Department for Economy and State Support of Agricultural Sector of the Ministry of Agriculture, in the near term Russian will need to increase dairy, meat and vegetable production. The Ministry of Agriculture has stated that Russia can be self-sufficient in poultry, and even has export potential. However, they noted that the situation for other subsectors is not very optimistic. A Ministry official noted that it will be necessary to change the structure of the State Program. So far the Ministry has developed four subprograms, including seed growing, dairy cattle breeding and vegetable production. According to the Ministry official, in order to achieve the desired parameters on import substitution, it is necessary to attract more investments. However, in 2014 the investment level dropped 24 percent, compared to 2013.

<http://www.agronews.ru/print.php?id=136449>

**Government Projects Increase in Food Price Inflation:** The Ministry of Economic Development of the Russian Federation (MED) increased its estimate for food price growth in 2014 to 12-13 percent, versus earlier projections of 7.2-7.4 percent. In other commodity groups (non-food products, market services), the increase in prices will be lower than previously projected, due to strengthening demand constraints. The Ministry report states that raw material and food imports that fell under sanctions, were mostly cheaper than domestic raw materials (milk, cheese, meat, and fish). Substitution with more expensive imports will result in an increase in inflationary pressures, given the low profitability of their production. For example, the share of raw material in the cost of meat and dairy industry is estimated from 70 to 85 percent. This situation is projected to lead to a reduction in production and consumption, as well as higher prices for other products due to a switching in demand and redistribution of trading margins to avoid price spikes.

According to MED's assessment, "in this regard, the growth of food prices in January-December 2014 may reach 12-13 percent versus 7.2-7.4 percent projected earlier, as a result inflation will increase to 7.5 percent versus 6.0 percent." This forecast is based on full substitution in the 4<sup>th</sup> quarter of all imported food products that are under the food ban, as well as the replacement of all missing imports of processed (ready) products. In general, the substitution rate must be at least 80-85 percent by the beginning of the 4th quarter.

According to the Ministry of Economic Development, the share of imports in the second half of 2014 which fell under sanctions is more than 25 percent, and in food trade turnover is more than 15 percent. According to MED, the future increase in food prices will slow to 5.5 percent, but will still make a significant contribution to inflation. In the first half of 2015, the increase in prices will be higher than previously predicted, but in the second half of the year it will be lower with a completion of the food ban regime and a significant increase in the supply of goods.

It is expected that local agricultural producers will increase production in the new agricultural year, 2015-2016, along with weakening of import competition. MED forecasts growth estimate for tariffs for housing and communal organizations. For other goods and market services, price growth will remain very modest, limited by stronger constraints of consumer demand.

In 2016-2017, inflation will continue to slow to 4.5 percent and 4 percent, respectively. According to MED, the following factors will contribute to medium-term inflation reduction: moderate increase in income of the population, relative stabilization of the nominal exchange rate, control from the Bank of Russia over inflation measures of monetary policy, while maintaining restrictions on the growth of public service tariffs within the predicted values. <http://www.agronews.ru/news/detail/136451/>

**Central Bank Projects Russia's Inflation to Hit 8% in 2014:** TASS news agency quoted the Chairwoman of Russia's Central Bank (CBR), Elvira Nabiullina, as saying that Russia's inflation would hit 8% in 2014. According to TASS, prices for sanctioned goods, such as poultry, pork, fish, cheese, and fruit increased three times faster in August 2014 than the prices on other products. <http://en.itar-tass.com/economy/752327>, <http://en.itar-tass.com/economy/751541>

**The Anti-Monopoly Service Reports Food Price Stabilization:** The Russian Federal Anti-Monopoly Service, which has been monitoring food prices since implementation of the food ban, has reported a stabilization of prices for significant food products since mid-September. According to the Agency's monitoring, between September 15<sup>th</sup> and 22<sup>nd</sup>, the prices for beef remained unchanged. In most cases there was a downward trend in prices for milk and butter. In general, prices for poultry were stable, and prices for fish are decreasing. However, prices for pork continue to increase, noting an increase between 4 and 10.5 percent, depending on the region. According to Rosstat reports, leaders in increasing prices were pork and poultry, which from January to mid-September gained 23.4 and 22.4 percent, respectively.

The Federal Antimonopoly Service has reported 2,000 calls to the hot line organized after the food ban. More than 500 calls complained about increasing prices for poultry, followed by vegetables, and fruits (mostly imported, such as kiwi, peaches, grapes and lemons).

<http://www.agronews.ru/news/detail/136528/>

**Russia Invoked the Grain Intervention Fund:** The Russian Government began purchasing grain into the Grain Intervention Fund on September 30, 2014. The purchasing auctions will be held twice a week, on Tuesday and Wednesday. In the course of the first two sessions, the Fund purchased 26,440 metric tons (MT) of grain from Russia's 2014 grain crop for 152.3 million rubles (approximately \$3.9 million). This included 1,350 MT of milling wheat Class 3, 10,260 MT of milling wheat Class 4, 4,320 MT of feed wheat Class 5, and 10,510 MT of barley. Purchase prices of all grains has remained at the levels established by the Ministry of Agriculture in March 2014 for the 2014 grain crop. For more information on the procedure of purchasing grain into the Intervention Fund, see FAS/Moscow GAIN report [Grain Update\\_8-29-2014.pdf](#). The information on the status of interventions is regularly posted on the site of the National Commodity Exchange: [www.namex.org/Zakupki2014/](http://www.namex.org/Zakupki2014/)

**Agriculture Minister Announced Distribution of Subsidies:** On October 2, 2014, Agricultural Minister Nikolay Fyodorov reported on the distribution of 2015 – 2016 federal subsidies for implementation of “Development of reclamation of agricultural land for the period of 2014-2020.” In 2014, the government allocated 1, 850 billion rubles, in 2015- 1,864 billion, and in 2016 – 2,380 billion rubles. He also reported on the re-distribution of federal budget for implementation of activities to support family livestock farms, noting that for the last two years the state support measures have been highly effective. More than 6000 young farmers received support under this program, creating 15,000 employment slots, and agricultural production output reached 2.3 billion rubles. In 2013, the federal budget allocated 1.9 billion rubles. Through September 25, 2014, the regions have used 76 percent of the total allocated amount.

The Minister also reported on a draft law on amendments to the Tax Code that envisages establishing a fee for use of opilio crab in Northern fishery basin. This decision will allow establishment of industrial quotas for this resource. The catch of opilio crab has been restricted in this basin.

<http://mcx.ru/news/news/show/29603.355.htm>

**Expected Ratification of the EEU Treaty:** The Russian news agency TASS, reported on October 1,

2014, that Russia's upper house of parliament, the Federation Council, unanimously ratified the Treaty on the establishment of the Eurasian Economic Union (EEU). TASS also reported that Kazakhstan's lower house approved the Treaty the same day, with full ratification in all three CU parties – Russia, Kazakhstan and Belarus, expected by October 7<sup>th</sup>. The EEU Treaty was signed in Astana by the Presidents of Belarus, Russia, and Kazakhstan on May 29, 2014, and requires ratification by all three parties in order to come into effect as planned on January 1, 2015. <http://en.itar-tass.com/economy/752126>, <http://en.itar-tass.com/economy/752121>

**Russia and Belarus to Set up Taskforce to Control Imports of Sanctioned Products:** The Belarusian Telegraph Agency (BelTA) learned the General Directorate for Foreign Economic Activities of the Agriculture and Food Ministry of Belarus, Alexei Bogdanov, that phytosanitary and veterinary services of Belarus and Russia are planning to establish a joint taskforce to control the imports of products to the Customs Union and prevent illegal transit of goods from the countries subjected to Russian food sanctions. [http://eng.belta.by/all\\_news/economics/Belarus-Russia-to-set-up-taskforce-to-control-imports-to-CU\\_i\\_76149.html](http://eng.belta.by/all_news/economics/Belarus-Russia-to-set-up-taskforce-to-control-imports-to-CU_i_76149.html)

**Brazil Starts Dairy Exports to Russia:** The Russian press has reported that one of the three eligible Brazilian companies has already launched dairy exports to Russia, quoting the Secretary for International Affairs of the Brazilian Agriculture Ministry, Marcelo Junqueira, as saying “the total number of Brazilian companies that have got the right to export meat and dairy products to the Russian market has exceeded 130 after 89 companies were added to the list in August.” <http://en.itar-tass.com/economy/750952>

**Agreement on Armenia's CU and EEU Accession:** According to the Russian news agency TASS, on October 2, 2014, the Armenian government approved a draft document on joining the Treaty on the Eurasian Economic Union (EEU). Meanwhile, BelTA learned from a member of the Board of the Eurasian Economic Commission, Sergei Rumas, that the agreement on the accession of Armenia to the Customs Union (CU) may be signed in Minsk next week, at the CIS and EEU summit next Friday, October 10, 2014. <http://en.itar-tass.com/world/752369>, [http://eng.belta.by/all\\_news/politics/Agreement-on-Armenias-accession-to-CU-may-be-signed-in-Minsk-next-week\\_i\\_76163.html](http://eng.belta.by/all_news/politics/Agreement-on-Armenias-accession-to-CU-may-be-signed-in-Minsk-next-week_i_76163.html)

**The Russian Fishery Union Supports Industry Associations Promotion Program:** The Russian Fishery Union supports the recommendations of the Federal Fishery Agency to involve industry associations in the promotion program of domestic fishery products in stores. The main objective of the Fishery Union is to promote greater sales of fish products, encouraging companies that produce high quality products. In an effort to achieve this goal, the "Fishery Union" under the auspices of the Federal Fishery Agency, participated in the development of a quality assurance concept for Russian products, prepared by the Ministry of Industry of Russia and approved by the government commission in April 2014.

Standards for "Pacific salmon salted slices" and "frozen cod fillets" were proposed as pilot projects. These standards provide for the use of only domestic origin raw materials. [http://www.fish.gov.ru/presscentre/smi\\_review/Pages/smi881.aspx](http://www.fish.gov.ru/presscentre/smi_review/Pages/smi881.aspx)

